



Treasury Inspector General for Tax Administration Office of Audit

STATISTICAL PORTRAYAL OF THE TAX EXEMPT BONDS OFFICE'S ENFORCEMENT ACTIVITIES FROM FISCAL YEAR 2005 THROUGH FISCAL YEAR 2010

Issued on August 3, 2012

Highlights

Highlights of Report Number: 2012-10-087 to the Internal Revenue Service Acting Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

State and local governments have outstanding debt of more than \$3.7 trillion dollars in municipal bonds, and hundreds of millions of dollars in new municipal bonds are issued each year. The Tax Exempt Bonds (TEB) office's primary method to ensure bonds are in compliance with tax laws is through its Examination Program, and it has dramatically increased coverage of the municipal bond sector by conducting more examinations. However, the TEB office has minimal information to select municipal bonds for examination and continues to use its limited resources examining compliant bonds. This results in an increased burden on the compliant bond issuers involved in these examinations.

WHY TIGTA DID THE AUDIT

This review addresses the major management challenge of Tax Compliance Initiatives. The overall objective was to review statistical data for the TEB office's enforcement activities from October 2004 through September 2010 to assess the office's efforts in identifying noncompliant bonds.

WHAT TIGTA FOUND

The Congressional Research Service estimates that \$309.9 billion in Federal tax will not have to be paid for Fiscal Years (FY) 2012 through 2016 because interest income from municipal bonds is exempt from Federal income taxes. The TEB office's enforcement activities are important because they help ensure the municipal bond exemption from Federal income tax is not being abused.

The TEB office more than doubled the number of examinations conducted per year since TIGTA last reviewed enforcement activities from FYs 2002 through 2004. Assessments based on these examinations

conducted from FYs 2005 through 2010 total more than \$84 million. The TEB office accomplished these results while significantly decreasing the amount of time it spends examining municipal bonds from more than 100 staff days per examination in FY 2002 to approximately eight staff days in FY 2010.

However, the TEB office still spends a substantial amount of time examining compliant bonds. Similar to a prior audit, TIGTA determined that more than one-half of the examinations conducted by the TEB office do not uncover noncompliance. Finally, TIGTA found that time expended on misconduct investigations was not always tracked.

WHAT TIGTA RECOMMENDED

During the audit, TIGTA recommended that the TEB office provide guidance to its employees to ensure time captured relative to misconduct investigations is complete. The TEB office took appropriate action prior to the issuance of this report.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

<http://www.treas.gov/tigta/auditreports/2012reports/201210087fr.pdf>.